

# Payback time

THE GOVERNMENT IS SURGING AHEAD IN ITS PLANS TO MITIGATE EMISSIONS SIGNIFICANTLY - BY TAXING

BY ANTHONY DANE

*SA ranks as one* of the world's 20 largest emitters of greenhouse gases (GHG) and is among the largest in terms of per capita emissions. The country thus has an important responsibility as part of global efforts to mitigate climate change.

The extent to which it delivers on this responsibility will come under increased scrutiny later this year when the SA government hosts the 17th Conference of the Parties (COP 17) to the UN Framework Convention on Climate Change. The significant challenge facing the government is to achieve substantial reductions in GHGs, while ensuring energy security and achieving the country's economic, employment creation, developmental and poverty alleviation objectives.

The government has made its intentions clear. President Jacob Zuma announced during the Copenhagen climate negotiations in 2009 that SA aims to reduce emissions by 34% by 2020 and by 42% by 2025, below a business-as-usual trajectory and subject to the availability of adequate financial, technological and other support.

This is an ambitious but conditional commitment that could have significant ramifications for the economy. The extent to which these commitments will be realised, however, remains uncertain. What does this mean in practice? Are we clear on what this 'business-as-usual trajectory' is? How do we allocate targets throughout the economy that are fair and appropriate? And what would this mean for our competitiveness in global markets? More importantly, should we be committing to a mitigation policy option before we fully appreciate what this commitment means?

While the world debates an appropriate international cap on emissions and fights over the slice that each country is entitled to, the SA government is surging ahead with a policy designed to significantly mitigate emissions. The government wants a carbon tax. Business does not. NGOs want fast and significant cuts in GHG emissions. But do we know what the average South African really wants?

#### **Government's proposed approach**

In December 2010, the National Treasury released the discussion paper *Reducing Greenhouse Gas Emissions: The Carbon Tax Option*. A well-researched document, structured as a technical paper, it was intended to open a debate around the most appropriate carbon pricing policy option for reducing SA's emissions.

Treasury is currently reviewing written responses on the document and pursuing further consultations. They hope to complete a revised proposal before the budget in February 2012 and the carbon tax could be in force as early as July next year. A similar discussion paper on carbon trading was promised, but it's anticipated that this will only be released in August 2012. So it seems the 'consultative process' relates more to the design of a carbon tax than to the choice of mitigation policy option.

Treasury's stated preference is for a proxy tax on fossil fuel inputs. Almost as an afterthought, they argue that a tax of R75 per ton of CO<sub>2</sub> equivalent (CO<sub>2</sub>e), increasing to around R200/t CO<sub>2</sub>e 'would be both feasible and appropriate to achieve the desired behavioural changes and emissions



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reduction targets'. All sectors would be covered and relief measures such as exemptions would be minimised and temporary.

Treasury has not provided specifics – such as how much revenue the tax will generate – and they are generally thin on many details of the tax design. SA carbon policy expert Emily Tyler suggests this is problematic given Treasury's ambitious time frame of announcing the tax by the next budget. 'The design is critical in determining the effectiveness of the tax in changing behaviour, as well as in terms of economic efficiency. This is particularly important in the context of SA's energy sector, which is not competitively structured.'

### Meeting expectations

If the carbon tax is implemented will it be able to achieve the desired behaviour change? Will it create the right incentives and disincentives to drive SA's developmental objectives?

Treasury implies that the early adoption of a low-carbon growth path could create a competitive advantage in climate-friendly value chains. What are those value chains going to be? Are we going to start manufacturing the components used in generating renewable energy or in producing low-carbon products? Currently we don't have the skills for this and generating renewable energy on its own will not be a labour-absorbing activity.

To manage these complex challenges will require an integrated policy approach, in which the Climate Change Response Strategy is aligned, for example, with the Beneficiation Strategy, the New Growth Path, the Department of Science and Technology's Ten-Year Innovation Plan, the Industrial Policy Action Plan, and the Integrated Resources Plan.

We need to be clear as to whether (and to what extent) the tax will contribute towards a more labour-absorbing growth path or encourage a move towards a new knowledge economy. Treasury acknowledges the need to address these issues. But will there be time? Are we fast-tracking an approach favoured by developed nations to look good in their eyes? Or is this really the right approach for SA given its developmental priorities?

### Mixed reactions

Reactions to the government's proposed introduction of a carbon tax have been mixed. Supporters of a carbon tax include Nobel laureate Joseph Stiglitz, a member of Economic Development Minister Ebrahim Patel's advisory committee.

The UCT's Energy Research Centre also broadly supports the proposed carbon tax, but calls for more specific targets and general policy alignment. Brent Cloete, a climate policy expert from consultancy firm DNA Economics, argues that: 'A carbon tax will support the transition to a lower carbon economy in SA by not only correcting distorted relative prices that don't account for the externality costs of climate change, but also by creating strong financial incentives for all stakeholders to collectively address the structural and institutional blockages currently delaying the local roll-out of low-carbon technologies at scale.'

There is also significant and vocal opposition to the tax. For one, ArcelorMittal SA has been highly critical of this move, and other important players to voice their concerns include Exxaro, BHP Billiton, Sasol, Anglo American, PPC and the International Air Transport Association of which SAA is a member.

The SA business sector has questioned why government had decided to narrow its focus solely on a tax, with Business Unity South Africa expressing concern that the tax has a one-dimensional focus on generating revenue and that government fails to see the magnitude of the negative implications for the country. Treasury believes that many of business' concerns will be addressed by the process of phasing in the tax to allow certainty and time to make the necessary investments.

But a prevalent sentiment from business is 'don't rush into a carbon tax ahead of international competitors'. The Chamber of Mines, for example, has urged government not to fast-track the process to get something done by the COP 17 meeting in Durban at the end of the year. In contrast, other organisations, such as the World Wide Fund for Nature South Africa, have been urging for a carbon tax to be introduced as quickly as possible.

Business argues that policy should be based on a suite of realistic measures to mitigate GHG emissions. For now, carbon trading has been withdrawn from the discussion. Government is trying to find the balance between allowing an inclusive, almost democratic approach, against the need to be decisive and take action now.

There is no question that we need to cut down on our GHG emissions. What remains uncertain is by how much, by when and in what manner. The implications of these decisions will have a profound impact on the nature of SA's developmental path. It is thus essential that the decisions are well informed and not taken in haste with the aim of simply looking good at COP 17. 🌍